

**ANNEX 5 – Methodology on sustainability risks****A. Managing the sustainability risk**

The SFDR Regulation (Regulation (EU) 2019/2088) defines sustainability through the perspective of two key concepts:

- Sustainability-related risks
- A negative impact on sustainability

Through the investment activity carried out, S.I.F. Oltenia S.A. can directly or indirectly generate an impact on the environment or the community. As environmental or social aspects may pose risks to the activity of S.I.F. Oltenia S.A., the company is concerned about their identification, assessment, prevention and/or mitigation, as well as the identification of positive investment opportunities as an integral part of the Corporate Social Responsibility (CSR) strategy and the Corporate Governance Code.

**Art. 1. Environmental factors**

Environmental factors are linked to the quality and functioning of the environment and natural systems, which may have an impact on the activity of the issuers in the company's portfolio. Environmental factors can be weather events and conditions of gradual climate deterioration.

The environmental risks are the risks posed by the exposure of S.I.F. Oltenia S.A. to issuers that may be adversely affected by environmental factors, including factors resulting from climate change and from other environmental degradation, such as pollution, depletion of water reserves, land contamination, alteration of biodiversity and deforestation.

At the level of S.I.F. Oltenia S.A., the process of assessing an investment also takes into account sustainability factors, and it is considered, where appropriate, whether the activity of that company:

- a) substantially contributes to one or more of the environmental objectives by:
  - mitigating climate change;
  - adapting to climate change;
  - sustainable use and protection of water and marine resources;
  - transition to circular economy;
  - pollution prevention and control;
  - protection and restoration of biodiversity and ecosystems.
- b) does not significantly harm any of the environmental objectives referred to in point (a);
- c) implements procedures to ensure alignment with the OECD Guidelines on multinational enterprises and the UN guiding principles on business and human rights, including the principles and rights set out in the eight fundamental conventions identified in the International Labour Organisation Declaration on Fundamental Principles and Rights at Work and those laid down in the International Charter of Human Rights;
- d) complies with the technical screening criteria to be established by the Commission in accordance with Articles 10(3), 11(3), 12(2), 13(2), 14(2) or 15(2) of EU Regulation 852/2020.

## **Art. 2. Social factors**

Social factors are linked to the rights, well-being and interests of people and communities, which can have an impact on the activities of issuers. Such factors, such as inequality, discrimination, lack of diversity, violation of labour rights or human rights, can have a financial impact on companies that apply low standards in these respects.

To determine whether an investment is considered socially sustainable, it shall be examined whether the company contributes to combating inequality or promotes social cohesion, social integration and employment relationships or investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly prejudice any of these objectives and that the investee companies follow good governance practices, in particular in terms of sound management structures, labour relations, compensation of relevant staff and compliance with tax obligations.

In the analysis process of the issuers, the Risk Management Office will monitor whether social factors are respected within that company, such as: compliance with recognized standards of labour law, respect for the health and safety of employees, setting adequate compensation and fair working conditions, respect for the principle of diversity and providing opportunities for training and development, respect for fundamental freedoms (including freedom of association), guaranteeing the adequate safety of products and health protection, while applying the same requirements to entities in the supply chain, as well as setting projections on combating inequality and ensuring the coherence and social integration of financially or socially disadvantaged groups.

In carrying out this analysis, the data published by the issuers will be used in accordance with the legal provisions.

## **Art. 3. Governance factors**

Governance factors refer to the issuers' governance practices, including the inclusion of ESG factors in their policies and procedures.

Governance has a fundamental role to play in ensuring that social and environmental considerations are incorporated by a particular issuer. Recognizing the potential impact of climate and environmental change and/or integrating sustainability risks into their decision-making process is a sign of good governance.

In order to establish the degree of sustainability of an investment from a governance point of view, the Risk Management Office analyses whether that economic activity has implemented a corporate governance policy, a corporate social responsibility policy or applies corporate governance principles, practices fiscal honesty, has implemented anti-corruption measures, data protection and respect the rights of employees, as well as whether management structures manage the concept of sustainability.

In carrying out this analysis, the data published by the issuers will be used in accordance with the legal provisions.

## **B. Governance, implementation and reporting**

ESG risks can have a significant impact on other significant risks of the company: credit risk, market risk, liquidity risk and operational risk.

Based on the available public information, S.I.F. Oltenia S.A. integrates into the decision-making process and assesses the relevant sustainability risks, i.e. those environmental, social or governance events or conditions that, if they occur, could have an impact on the profitability of the investments. To this purpose, S.I.F. Oltenia S.A. also takes into account the data for assessing the sustainability of some economic activities by using various ESG ratings that are available for the companies in the portfolio or for those in which investments are to be made. If ESG ratings are not

available for a particular company, the available data of both a financial and non-financial nature shall be used (such as reports by independent bodies relating to the respective sector or company, the nature of the disputes in which the company is involved, information about the company in the media, etc.).

The senior management shall ensure and verify on a regular basis that risk limits are implemented and respected, including policies that require the integration of ESG risks into investment decision making and risk management.

The ESG risk aspects are analysed and integrated in the risk opinion and/or in the Investment Opportunities Report submitted to the approval of the Board of Directors/upper management.

The person responsible for risk management ensures the implementation of this policy, including the analysis of sustainability risks in the risk management process and in the risk opinion regarding the investment opportunities proposed for the approval of the Board of Directors/upper management.

### **C. The integration of sustainability risk assessment in the investment decision-making process**

The exposure of S.I.F. Oltenia S.A. to sustainability risks is mostly indirect, as it is determined by the concrete characteristics of the companies in the portfolio of S.I.F. Oltenia S.A.

Therefore, based on the portfolio of S.I.F. Oltenia S.A., sustainability risks take diverse forms ranging from social, labour, human rights and equal opportunities issues (*which are closely monitored and managed by issuers in the financial sector, but not only*) to those regarding climate impact and the need for transition to the circular economy (*much more relevant to companies in the natural resources and related services sectors*).

The draft legislation on sustainability shall also be monitored to identify the measures necessary to mitigate the potential impact on the portfolio of the S.I.F. Oltenia S.A.

The monitoring of these indirect risks shall be carried out in an integrated manner within the framework of the internal portfolio management procedures of S.I.F. Oltenia S.A., in order to substantiate timely investment/divestiture decisions.

The sustainability risk assessment uses the reports of the issuers listed with the BVB, the companies' websites, any credible and authorized available source. In the internal process of valuation and management of its own portfolio, together with the financial reporting of the firms in which investments are made, non-financial reports issued by the companies in accordance with the applicable legal provisions are also analysed within S.I.F. Oltenia S.A. Thus, the structures responsible for making investment proposals include the key non-financial performance indicators in the issuer's non-financial report (*where available*) in the opportunity reports.

Also, in order to prevent/mitigate sustainability risks, in the process of assessing possible new investment opportunities and expressing risk opinions, The Risk Management Office shall check whether or not the issuer's business area falls within the list of areas of activity that may pose significant sustainability risks (Annex 5.1.) and then review the issuer's ESG score (*if available*) and apply screening according to Annex 5.2. to determine the sustainability risk of the investment.

In the same line, in the exercise of the voting right of S.I.F. Oltenia S.A with the issuers in the portfolio, the company will consider materials that include sustainability aspects and will vote for the effective management of sustainability risk factors by that company.

The analysis and valuation of data contained in non-financial reports are used to identify the main categories of sustainability risks and expected adverse effects (*depending on the sector of activity in which the company operates*) and how responsible business codes of conduct are followed, in order to align the companies' activities with the objectives of the Paris Agreement. The

investment monitoring process also aims at identifying possible negative impacts at sustainability factors, which are expected to reduce investment returns, in order to make timely investment/disinvestment decisions for S.I.F. Oltenia S.A.

#### **D. Transparency of sustainability issues**

The company agrees to the principles of decision-making transparency recommended by the good governance rules, ensuring that investors are informed about the investment activity with an impact on sustainability factors.

Information on the main negative effects on the sustainability factors induced by the activity of S.I.F. Oltenia S.A. are available in the non-financial reports issued by the companies in accordance with the applicable legal provisions.

The compensation policy, subject to approval by the GSM, includes the relevant aspects of sustainability effects.